Procurify

Benchmarking Business Spend: 2022 Report For Biotechs

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OUR EXPERT

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Geoff McAllister is a Procurement Expert at Procurify. With more than three decades of experience working in the procurement space, he helps organizations streamline their supply chains, reduce administrative costs, and improve operational efficiency.

Prior to Procurify, Geoff worked in supply chain and consulted on supply chain efficiency and optimization for organizations including BC Hydro, Accenture Consulting, Nortel Networks, and Vard Electro Canada.

Introduction

Since the onset of COVID-19, spend management in the biotechnology (biotech) industry has been going through a revolution. For the first time, many labs are beginning to re-evaluate their backend processes and are finding innovative ways to modernize and optimize day-to-day workflows.

As challenging as the global pandemic was for the biotech industry, it has helped finance leaders adopt a more progressive and disruptive mindset. No longer is "good enough" good enough; leaders are now scrutinizing traditionally slow and manual workflows, doing everything they can to deploy streamlined technologies.

For many finance leaders in the field, this change is a welcome one:

> *"For me, it's not doing things the old way just because we're used to it. It's about trying to help open peoples' minds to doing something different and seeing what's out there with technology and all of the awesome changes that are going on in the world."*

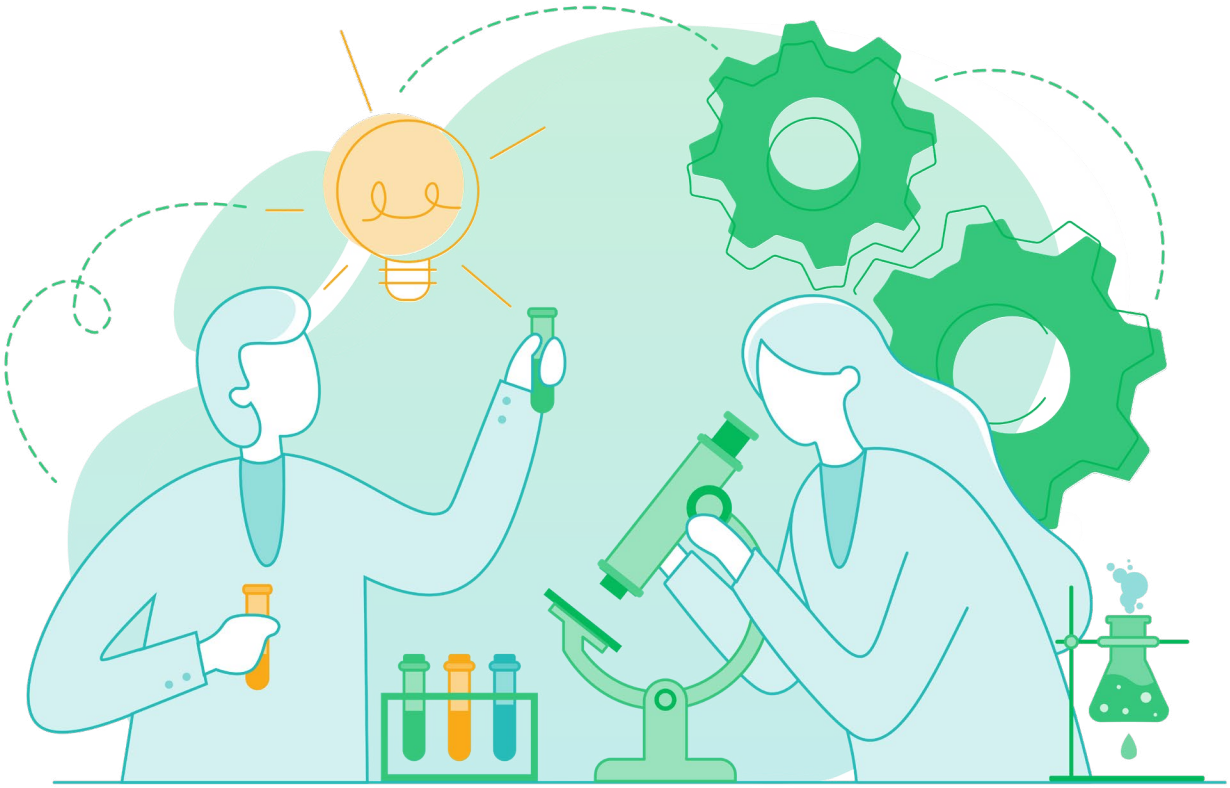
KEVIN NGUYEN, IT PROJECT MANAGER AT INARI MEDICAL

While opening peoples' minds is critical for successful change management, a forward-thinking approach to spend management must address the fundamental issue that all biotech labs face in today's economic climate: uncertainty.

To mitigate uncertainty, however, finance leaders have to become proactive in their approach to managing spend, and for this to happen, they need clarity and control across the entire spending ecosystem. This means end-to-end visibility into purchasing processes, centralized administrative control across a suite of decentralized tools, and customizable spend approval workflows that are responsive to cash flow position or economic performance.

Without this level of scrutiny in place, finance leaders cannot leverage strategic advantages, influence high-level decision making, or mitigate against risk caused by extraneous circumstances. In addition, teams simply can't purchase goods and services at the speed required to hit testing deadlines, and this impedes the one thing that matters most: growth.

Skip straight to the benchmarks



The emergence of polarized financial challenges

The last year and a half has been a pivotal time for many biotech organizations. There's no denying that the emergence of the SARS-CoV-2 virus left many labs struggling to remain operational. In April 2020, for example, a survey conducted by The Science Advisory Board found that 48 percent of academic and pharma/biotech labs were closed due to COVID-19 concerns, and another 39 percent were operating at reduced capacity. Only 13 percent of labs surveyed reported being fully operational.

> *"Our focus was on keeping our lab open and our employees safe. We implemented regular testing and proximity bracelets to help with physical distancing. I think that we did really well in terms of taking care of our employees."*

AMY COWGILL, DIRECTOR OF BUSINESS OPERATIONS AND ADMINISTRATION, CIRCLE PHARMA

At the same time, however, many biotechnology organizations received large amounts of funding. In fact, in the same month that 48 percent of labs temporarily closed, five biotech companies went public on the stock exchange and traded higher than on the date of their IPO through the subsequent quarter.

Today, the story remains much the same, and many finance leaders are currently facing one of two polarized problems:

1. Finding new ways to manage large amounts of VC-injected cash and scale rapidly.
2. Improving operational efficiency and conserving cash flow for the sake of survival.

For both concerns, there is only one viable solution: **biotech labs require an innovative spend management strategy.**

Innovating spend management

According to McKinsey, many Chief Procurement Officers (CPOs) are convinced that big data and advanced analytics will lead to smarter spend management practices. Of the CPOs surveyed, many expect to see a 40 percent increase in annual savings as a direct result of digitization.

But digitization is just the tip of the iceberg when it comes to innovating spend management. After all, it's not necessarily about what tool you use, but how you use it.

With that said, step two in the race towards innovation is to move from a reactive state of mind to a proactive one. For biotech labs, this means:

- Setting up clear budgets that reflect real-time spending to ensure every cent of an investment is spent wisely.
- Reporting on the investment to the board so labs can secure and leverage further capital to progress their mission.
- Reducing the time spent trying to order goods and services so they science teams can concentrate on what matters most: the science.

> *"We have a huge responsibility to our investors, to our potential patients, and to science in general, to spend this money well. And to do that, we need to understand our spend."*

AMY COWGILL, DIRECTOR OF BUSINESS OPERATIONS AND ADMINISTRATION, CIRCLE PHARMA

To truly achieve this level of operational efficiency, a data-driven team of finance and accounting professionals is essential. This team must monitor, analyze, and optimize a wide range of spend management metrics like cycle times, average spending, and purchasing volume. In parallel with these metrics, your team also needs to know how your biotech organization stacks up against the rest of the industry.

Without benchmarks in place, teams are left blind and without the ability to compare and contrast their performance. Better yet, they're unable to identify vulnerabilities, improve efficiency, and leverage opportunities that expedite growth.

Taking traditional benchmarking one step further

Traditionally, spend management benchmarking has been highly focused on measuring the performance of vendors. Metrics like on-time delivery, delivery accuracy, quality, and vendor responsiveness are typically factored into the determination of successful or unsuccessful spending.

But today, these metrics are often sidelined. With such ongoing disruption to the global supply chain, many biotech labs now automatically expect a baseline delay in delivery times, and metrics like delivery accuracy and responsiveness are increasingly difficult to measure.

Rather than analyzing the performance of external and uncontrollable metrics like these, biotech labs are turning to what they can control. Innovative teams will seek feedback on their own performance, for example, and measure KPIs like spend per vendor, purchase request consolidation, 80/20 spend, and return rates.

Models like this are critical to proactive spend management. They help teams better understand higher-level performance metrics like purchasing cycle time, which in turn set the stage for operational efficiency.

The 2022 biotech benchmarks: an overview

This benchmark report contains 10 critical spend management benchmarks that we believe are the key to unlocking efficiency for biotech organizations.

With these metrics, your team can begin to understand exactly what 'good' looks like so you can start identifying vulnerabilities within your spend management process and begin optimizing for operational efficiency.

Introducing the biotech benchmarks

Requisition to purchase order cycle time

Spend per vendor

Items per vendor

Spend per request for order (RFO)

RFO consolidation

Spend per purchaser

Number of purchase orders

Purchase orders per purchaser

80/20 spend

Average yearly spend

About the data

To gather this research, we carefully analyzed, grouped, and anonymized data from 45 biotech customers. The data we captured spans the year 2020 (unless otherwise stated) and is presented in USD. Throughout 2020, our biotech customers used the Procurify Platform to manage approximately US$770 million dollars in spend.

Using this data, we shortlisted 10 key benchmarks that we believe will help biotech organizations better measure the efficiency of their own internal supply chain processes.

To provide further clarity, each benchmark is broken down by organization size. The following is how we've classified this size:

In some cases, we also showcase a five-year average. To produce this, we used customer data ranging between 2016 and 2020.

These benchmarks are built using median analysis (unless specifically stated). This allows us to showcase accurate averages that counteract anomaly data, which may have skewed results (typically caused due to customers receiving large investments, or significant spending decreases due to COVID-19).

The information in this report can be used for the purposes of comparison. Understanding where your biotech organization stands compared to these benchmarks will help you determine any vulnerabilities you may have and will help you prioritize areas of improvement.

BENCHMARK 1

Requisition to purchase order cycle time

SMALL ORGANIZATIONS

39.83
hours

SMALL-MID ORGANIZATIONS

36.80
hours

MID-SIZED ORGANIZATIONS

53.69
hours

Defining requisition to purchase order cycle time

This benchmark is calculated as cycle time in hours from the receipt of a purchase requisition line item to the purchase order's approval.

Why is this important?

Spending less time routing requests for approval or tracking the progress of a purchase request offers huge administrative savings not only to those approving spend, but to those requesting it.

If biotech labs can maximize efficiency here, scientists can work faster.

Finance and accounting managers can use this benchmark to gain a clear understanding of internal process efficiency. This benchmark can help you make the case for hiring, and it gives you a testing baseline for strategies devised to speed up departmental efficiency.

Advice from the expert

"Trusting teams to make good spending decisions can be difficult for leaders to fathom. The following are some opportunities to improve cycle time so you can reduce the administrative cost associated with procurement. Consider:

- *Setting thresholds where no approval is required.*
- *Delegating spend approval authority to leadership levels based on dollar value or risk.*
- *Reducing the number of approvals between request and approval."*

GEOFF MCALLISTER, PROCUREMENT EXPERT, PROCURIFY

TOP TIP

Leverage this benchmark to identify and fix individual or process bottlenecks within your purchasing process.

BENCHMARK 2

Spend per vendor

SMALL ORGANIZATIONS

$18,624
spend per vendor

SMALL-MID ORGANIZATIONS

$30,891
spend per vendor

MID-SIZED ORGANIZATIONS

$37,197
spend per vendor

Defining spend per vendor

Spend per vendor is a metric that identifies how much of your spend goes to your critical vendors on average. Knowing this can help you focus your efforts on getting the best value from your supplier network.

Why is this important?

Quite simply, the higher the spend per vendor, the more efficient your procurement process is.

In an ideal world, one vendor can supply all of your goods and services at the best possible price. Because this is unrealistic, a good goal is to utilize as few vendors as possible to get what you need, when you need it, and at the ideal price point.

To achieve a high level of efficiency, consolidate your items into common vendors. You'll save time on setting up a new vendor, on building and maintaining relationships with them, and on managing them. Reducing your number of vendors will reduce your administrative cost and can help you negotiate stronger contracts.

Advice from the expert

> *"To help you reduce your vendor base and lower administrative costs, analyze line items where you've duplicated purchases from multiple vendors and determine which vendor is best suited to supply that item, at that time.*
>
> *To remain competitive, consider doing periodic price and delivery checks with alternate vendors. In many cases, retaining a culture of 360 supplier relationship management can result in unforeseen savings."*

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TOP TIP

Use this calculation to help determine the efficiency of your vendor consolidation.

Five-year average:

$15,394	$185,405	$34,188
Small organizations	Small-mid organizations	Mid-sized organizations

BENCHMARK 3

Items per vendor

SMALL ORGANIZATIONS

10
items

SMALL-MID ORGANIZATIONS

10
items

MID-SIZED ORGANIZATIONS

9
items

Defining items per vendor

Similar to spend per vendor, items per vendor measures how many items are allocated to each vendor.

Why is this important?

The number of items per vendor shows how efficient your purchasing process is. A high number of items per vendor can indicate that you're effectively consolidating your procurement process.

Sometimes, items from a critical vendor (like Thermo Fisher Scientific, a key player in the biotech supply chain) won't exist in your top five spend categories, but they are still critical to your operations due to the volume of items you're purchasing from them.

Advice from the expert

> *"Much like the spend per vendor, consider looking for the same or similar items purchased from multiple vendors and perform a consolidation exercise. This benchmark has the added benefit of providing greater negotiation power by purchasing more from a single vendor.*
>
> *This also decreases administration costs associated with new vendor setup, purchase order and invoice volume, quality issues, and more."*

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TOP TIP

Use this calculation to help determine the efficiency of your vendor consolidation.

Five-year average:

8	9	3
Small organizations	Small-mid organizations	Mid-sized organizations

BENCHMARK 4

Spend per request for order (RFO)

SMALL ORGANIZATIONS

$3,768
spend per RFO

SMALL-MID ORGANIZATIONS

$5,270
spend per RFO

MID-SIZED ORGANIZATIONS

$6,109
spend per RFO

Defining spend per RFO

The spend per RFO benchmark is a means of determining how efficient your requestors are at combining their purchase requests.

Why is this important?

This is an important metric to determine a culture of administrative efficiency. By holding off on requests for orders until there are multiple items, less time is spent entering data into a purchase request, and in approving orders.

Consolidating appropriate requests gives both those requesting and those approving spend more time back to focus on work. This benchmark also assists in reducing the creation of purchase orders and invoices.

Advice from the expert

> *"There are several ways to increase spend per RFO. Consolidation of common line items or vendors into one RFO will increase your spend per RFO. For rapidly growing biotech labs, consolidating requests (and therefore increasing your spend per RFO) can be difficult as purchasing is often a hat worn by many out of necessity."*

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TOP TIP

Delegate responsibility to key team members who can act as category managers to improve your consolidation process.

Five-year average:

$2,923	$5,610	$4,149
Small organizations	Small-mid organizations (3 year avg)	Mid-sized organizations

BENCHMARK 5

RFO consolidation

SMALL ORGANIZATIONS

-14%
consolidation

SMALL-MID ORGANIZATIONS

2%
consolidation

MID-SIZED ORGANIZATIONS

12%
consolidation

Defining RFO consolidation

Carrying on from spend per RFO, RFO consolidation measures how many RFOs are consolidated into one purchase order, shown as a percentage.

Why is this important?

This metric is different to spend per RFO as it demonstrates the percentage of RFOs that are consolidated into larger purchase orders. Understanding whether or not your RFOs are resulting in more, the same, or less purchase orders speaks directly to the administrative costs associated with the creation and management of purchase orders.

Hint: *A negative number means there are more purchase orders than purchase requests.*

Advice from the expert

> *"To increase your RFO consolidation percentage, look for non-critical items that are ordered regularly and hold off on placing a purchase order until there are several approved RFOs ready to go."*

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TOP TIP

This benchmark also alludes to accounting efficiency, as more purchase orders results in more invoices.

Five-year average:

-5	3	10
Small organizations	Small-mid organizations	Mid-sized organizations

BENCHMARK 6

Spend per purchase order

SMALL ORGANIZATIONS

$3,918
spend per purchase order

SMALL-MID ORGANIZATIONS

$5,700
spend per purchase order

MID-SIZED ORGANIZATIONS

$6,630
spend per purchase order

Defining spend per purchase order

Similar to spend per RFO, spend per purchase order determines how efficient purchasers are in combining requests for order.

Why is this important?

By holding off on placing a purchase order until there are multiple line items ready for purchase from a specific vendor, less time is spent conducting data entry, approving requests, invoicing vendors, and processing payments.

Consolidating multiple requests into larger purchase orders gives the purchaser more time back in their work day.

Advice from the expert

> *"Having a software system that allows you to filter on items and/or vendors can assist with organizing your purchase requests into larger purchase orders.*
>
> *Consolidating multiple line items into one larger purchase order also gives the purchaser the potential to negotiate volume discounts (if blanket orders are not already set up)."*

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TOP TIP

Much like the spend per RFO benchmark, spend per purchase order can assist in reducing invoice and payment processing times.

Five-year average:

$2,668	$42,943	$5,618
Small organizations	Small-mid organizations	Mid-sized organizations

BENCHMARK 7

Number of purchase orders

SMALL ORGANIZATIONS

736
purchase orders

SMALL-MID ORGANIZATIONS

1788
purchase orders

MID-SIZED ORGANIZATIONS

910
purchase orders

Defining number of purchase orders

This benchmark measures the average number of purchase orders created as a means of tracking long-term spend trends and providing insight into how requests are actioned.

Why is this important?

Understanding this benchmark can help biotech labs understand how they're spending across the long term. If the number of purchase orders reduces but spend remains the same, for example, it could be an indicator of efficiency related to spend workflows, approval processes, or RFO creations.

Advice from the expert

> *"Utilizing a software tool to automate and track your purchase order efficiency can help your lab identify long-term spend trends (and therefore anomalies) in spending. If you have a high volume of purchase orders in a particular month, for instance, it may warrant further investigation into your spend controls and budgeting.*
>
> *Reduce the number of purchase orders through actions such as item consolidation, vendor consolidation, forecasting, and by deploying blanket orders. This will help you create a more efficient spend culture."*

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TOP TIP

Increasing efficiency here will also likely increase cash flow through improved administrative spending.

Five-year average:

607	633	687
Small organizations	Small-mid organizations	Mid-sized organizations

BENCHMARK 8

Purchase orders per purchaser

SMALL ORGANIZATIONS

72
purchase orders

SMALL-MID ORGANIZATIONS

59
purchase orders

MID-SIZED ORGANIZATIONS

133
purchase orders

Defining purchase orders per purchaser

This benchmark identifies the average of how many purchase orders are assigned to each purchaser, and is used to measure purchaser workload.

Why is this important?

This benchmark helps your lab create workload management efficiencies. If the number of purchase orders per purchaser continues to increase, for example, it can indicate a hiring need.

This benchmark may also initiate a review of your processes or workflows and help you improve overall efficiency.

Advice from the expert

"An overworked purchaser can be catastrophic. It can lead to data entry error, unforeseen spending, and higher rates of team turnover. Depending on the makeup of the organization (for example, centralized vs decentralized procurement), your biotech lab could take action to reduce workloads and improve quality assurance.

A few ways to do this include streamlining your purchasing workflows, turning to technology and automating key functions, or delegating low-value RFOs to other members on the team. You can also hire additional personnel."

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TOP TIP

Consider setting up automatically-generated purchase orders for low-dollar or low-risk items placed with trusted vendors.

Five-year average:

174	53	124
Small organizations	Small-mid organizations	Mid-sized organizations

BENCHMARK 9

80-20 spend

SMALL ORGANIZATIONS

10%

of vendors receive 80% of spend

SMALL-MID ORGANIZATIONS

36%

of vendors receive 80% of spend

MID-SIZED ORGANIZATIONS

22%

of vendors receive 80% of spend

Defining 80-20 spend

The Pareto Principle (or the 80-20 rule), in the context of procurement, explains that 80 percent of your spend goes towards 20 percent of your vendors.

Why is this important?

To maximize efficiency within your procurement function, it's critical to focus your time on the 20 percent of your vendors who will yield the greatest spending results.

Exceeding this spending rule is an early warning sign of an inefficient spend management process. Simply put, it can indicate that you're relying upon too many vendors for the supply of critical items and spreading your efforts too thin.

Generally speaking, procurement is an indirect cost to a biotech lab. Maximum efficiency, then, saves costs, improves cash flow position, and increases profitability.

Advice from the expert

> *"Consider doing a spend per vendor analysis to determine if any line items can be consolidated into your top vendors. Performing this analysis can also help determine which vendors are having the biggest impact, and which may be worth negotiating with to improve delivery timelines, payment discounts, payment terms, and so on."*

GEOFF MCALLISTER, PROCUREMENT EXPERT, PROCURIFY

TOP TIP

Reduce even more of your procurement costs by getting your biotech lab to a place of 90 percent spend for 10 percent of your vendors. This also increases your volume discounts and negotiation power.

Five-year average:

10	16	14
Small organizations	Small-mid organizations	Mid-sized organizations

BENCHMARK 10

Average yearly spend

SMALL ORGANIZATIONS

$2,134,766
spend

SMALL-MID ORGANIZATIONS

$8,805,792
spend

MID-SIZED ORGANIZATIONS

$12,336,049
spend

Defining average yearly spend

Average yearly spend is a quick indicator of overall growth.

Why is this important?

In many cases, average yearly spend can become an early indicator of growth, which can trigger actions like increased hiring.

However, it can also indicate uncontrolled spend and a decline in best practice procurement. When spending starts rising faster than revenue, it may be time to review budgets and implement technology that can help keep uncontrolled spending in check.

Advice from the expert

> *"Determine a period that is appropriate for your business to review your average yearly spend. As spend rises beyond expectations, it could be time to review your budgets and increase your approval workflows."*

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TOP TIP

Find a software tool that can monitor spend vs budgets in real time.

Five-year average:

$1,494,397	$12,263,897	$4,765,335
Small organizations	Small-mid organizations	Mid-sized organizations

BONUS BENCHMARK

Number of departments

SMALL ORGANIZATIONS	SMALL-MID ORGANIZATIONS	MID-SIZED ORGANIZATIONS
25 departments	58 departments	37 departments

Defining number of departments

This metric highlights the average number of departments created within the Procurify Platform for each biotech lab. For example, marketing, sales, IT, HR, etc.

Why is this important?

Departments are a critical part of your operations and can help provide purchasing clarity. Allocating specific purchases to departments helps department managers accurately track against their budgets, and therefore helps them accurately forecast for quarterly or monthly spend.

Too many departments can add administrative time and create a top-heavy management structure. Too few departments, however, can create roles that are too broad for teams to achieve success.

Advice from the expert

> *"Setting appropriate budgets that are visible to departmental approvers can help to reduce uncontrolled spend. Also, reviewing past spend and anticipated future spend can help create spend forecasts that will assist in budgeting."*

GEOFF MCALLISTER, PROCUREMENT EXPERT, PROCURIFY

TOP TIP

Find a software tool that can monitor spend vs budgets in real time.

Five-year average:

30	43	28
Small organizations	Small-mid organizations	Mid-sized organizations

BONUS BENCHMARK

Number of account codes

SMALL ORGANIZATIONS	SMALL-MID ORGANIZATIONS	MID-SIZED ORGANIZATIONS
73	91	90
account codes	account codes	account codes

Defining number of account codes

Similar to departments, the number of account codes showcases the average quantity of codes created for each size of organization within the Procurify Platform.

Why is this important?

Account codes can be used to organize departmental budgets and ensure that capital is allocated to the most appropriate areas of your organization. Grouping spend like this ensures that team leaders spend against their forecast and helps to create proactive indicators of budget overspending.

Advice from the expert

> *"Consider keeping this as simple as possible as it will impact your organization further down the purchasing chain. Often, requesters are in a rush and are looking through many codes, which takes time and increases the possibility of rejection due to incorrect coding. On the contrary, not enough codes can result in requesters 'dumping' their purchasing into the most convenient bucket, which will create inaccuracy with your budgets."*

GEOFF MCALLISTER, PROCUREMENT EXPERT, PROCURIFY

TOP TIP

Find a software tool that can monitor spend vs budgets in real time.

Five-year average:

68	104	69
Small organizations	Small-mid organizations	Mid-sized organizations

Spend management in 2022 and beyond

Four year ago, Deloitte produced a report titled 'Life Sciences and Health Care Predictions for 2022'. In it, they stated that:

> *"Indeed, pharmaceutical, medical device, and biotechnology innovators are harnessing digital technology and the power of big data and analytics to deliver a more cost-effective approach to health care."*

This statement predates a time where remote working is normal, where agility is critical, and where supply chains are unpredictable. In fact, it dates back to a time when the world was steadfast, and when forecasting for the future was a low-priority task that was taken for granted.

But if the pandemic has taught biotech labs anything, it's that the future is unclear, and harnessing the power of digital technology and advanced analytics is the only way to make accurate predictions and to safeguard against continuous uncertainty.

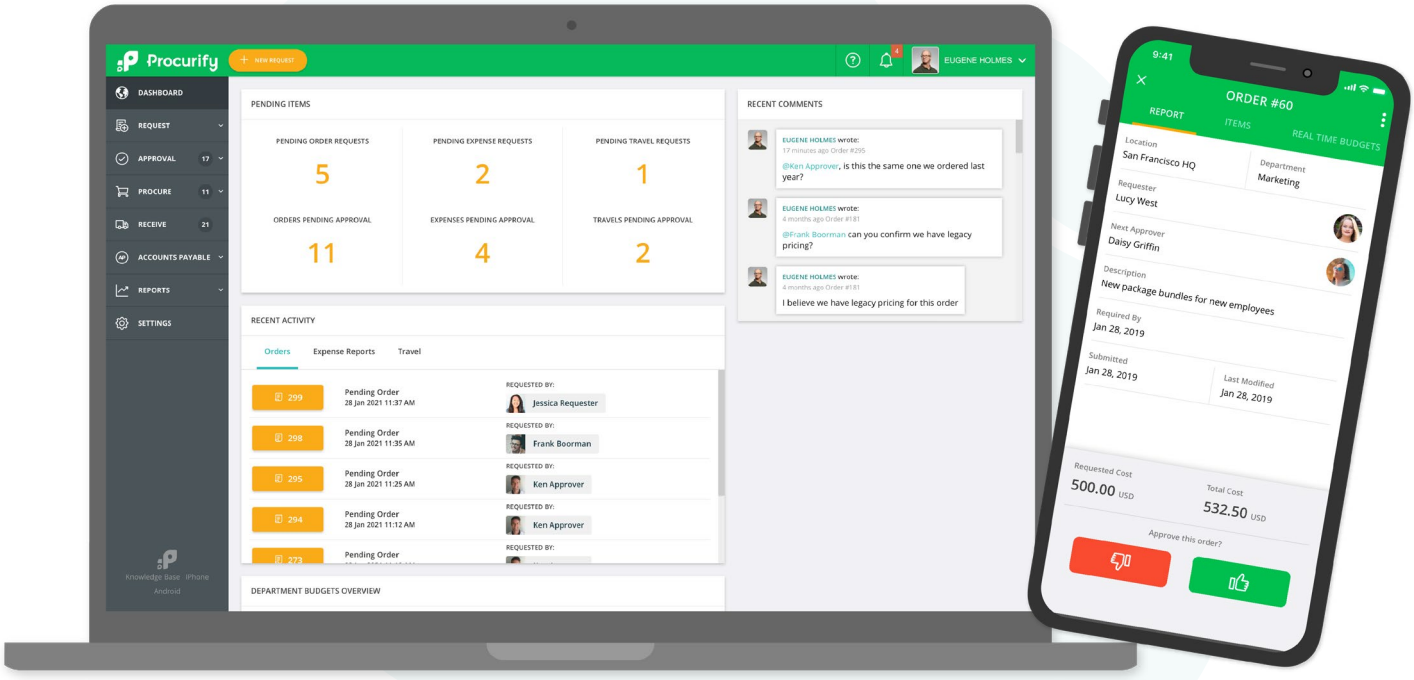
With the right technology and advanced analytics in place, biotech labs can walk into 2022 and maintain an agile advantage over 'big pharma'; finance teams can achieve regulatory compliance so that they can successfully scale; and most importantly, science teams can regain their time to concentrate on what matters most: the science.

About Procurify

Procurify is a spend management platform that helps organizations deliver tracking, accountability, and end-to-end workflows for expenses and spending. Companies can request, approve, and track spend through real-time data, streamlined workflows, and valuable insights while driving operational efficiencies and business growth.

Procurify has managed over US$18 billion dollars of organizationa spend around the world and integrates with major ERP accounting systems such as NetSuite and QuickBooks Online.

For more information, visit procurify.com.

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